

April 27, 2012

Angela Kraetsch, Director of Administrative Services
City of Arroyo Grande
300 East Branch Street
Arroyo Grande, CA 93420

Dear Ms. Kraetsch:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Arroyo Grande Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 12, 2012 for the periods January through June 2012 and July through December 2012. Finance staff recently contacted you for further clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligations characteristics. Based on a sample of line items reviewed and application of the law, the following item does not qualify as Enforceable Obligation (EO):

- Item No. 2 - Loan from the City of Arroyo Grande in the amount of \$919,797 on the January through June 2012 ROPS. The loan agreement is dated July 25, 2006. HSC section 34171(d)(2) states that agreements, contracts or arrangements between the entity that created the redevelopment agency (RDA) and the former RDA are only enforceable if made within the first two years of the RDA's existence. The City of Arroyo Grande RDA was established in 1991. The loan between the City and the RDA was made subsequent to the first two-year period. Therefore, the loan is not an EO and should not be listed on the ROPS.

As authorized by HSC section 34179 (h), Finance is returning your ROPS for reconsideration. This action will cause the ROPS to be ineffective until Finance approval and may cause payment delays for valid obligations. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO.

Please direct any inquiries to Chikako Takagi-Galamba, Supervisor or Wendy Griffe, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL
Program Budget Manager

cc: Ms. Barbara Godwin, Property Tax Manager